IMF EXECUTIVE BOARD DISCUSSION OF THE OUTLOOK, APRIL 2016

The following remarks were made by the Chair at the conclusion of the Executive Board's discussion of the Fiscal Monitor, Global Financial Stability Report, *and* World Economic Outlook *on March 28, 2016.*

Executive Directors broadly shared the assessment of global economic prospects and risks. They noted that while the global economy continues to expand modestly, prospects have weakened across a wide range of countries, and downside risks are rising. Risks to global financial stability have also increased amid volatility in global asset markets, weaker confidence, and geopolitical tensions. Directors agreed that the current conjuncture increases the urgency of a broad-based policy response, both individually and collectively, to raise growth, manage vulnerabilities, and boost confidence.

Directors observed that growth in advanced economies is projected to remain modest, in line with the 2015 outcomes. A stronger recovery continues to be restrained by weak external demand, low productivity growth, unfavorable demographic trends, growing income inequality, and legacies from the 2008–09 global financial crisis. Meanwhile, deflation risks remain a concern in Japan and several euro area countries.

Directors noted the generally weakening outlook for emerging market and developing economies, reflecting tighter global financial conditions and a weaker commodity market outlook. Growth prospects differ considerably across countries, and many have demonstrated more resilience to shocks given existing buffers and strengthened fundamentals and policy frameworks. China's transition toward more sustainable growth, backed by ample policy buffers, is a welcome development; however, given the increasingly prominent role of China in the world economy and financial markets, challenges and uncertainties in the process could have potential international implications.

Directors concurred that the outlook for global financial stability is clouded by downside risks. They noted in particular market pressures on banking systems and life insurance sectors in advanced economies. Emerging market economies face volatile capital flows and exchange rate pressures, as well as corporate sector vulnerabilities. A more balanced and potent policy mix that includes strong supervision, macroprudential frameworks, and implementation of the regulatory reform agenda is therefore vital.

Directors underscored that a combination of structural reforms and supportive monetary and fiscal policies is needed to raise actual and potential output. They generally endorsed the main policy recommendations in the reports, although the appropriate mix should be tailored to each country's circumstances. Directors also highlighted the importance of clear communication of policy intentions, especially by large economies. Commitment by policymakers to facilitate cross-border trade flows and global rebalancing remains crucial and must be followed through in order to achieve strong, sustainable, and balanced global growth. The fragile conjuncture calls for concerted efforts to identify potential responses to downside risks were they to materialize, to ensure strong, well-coordinated oversight and global financial safety nets and to ring-fence spillovers from noneconomic shocks.

Directors broadly agreed that, in advanced economies, securing higher sustainable growth requires a bold three-pronged approach consisting of mutually reinforcing (1) structural reforms, (2) continued monetary policy accommodation, and (3) prudent fiscal support. Recognizing the need to avoid overburdening monetary policy and preserve debt sustainability, Directors saw as a key element of this strategy a well-designed and -sequenced country-specific structural reform agenda that takes into account both the short- and medium-term impact of reforms. Reforms that entail fiscal support and reduce barriers to entry in product and services markets would best help strengthen near-term demand, while well-targeted tax and spending policies to encourage innovation and education investment could also play a useful role.

Directors stressed that accommodative monetary policy remains important, particularly in Japan and the euro area. Mindful of the side effects of extremely low—and, in some countries, negative—interest rates on domestic financial institutions, exchange rates, and other countries, they stressed the importance of complementary efforts to enhance policy transmission and accelerate balance sheet repair. The growing systemic importance of the insurance sector, in an environment of low interest rates, warrants a strong macroprudential approach to supervision and regulation.

Directors agreed that, where needed and where fiscal space is available, fiscal policy in advanced economies should be supportive of short- and medium-term growth—with a focus on boosting future productive capacity, in particular through infrastructure investment, and financing demand-friendly structural reforms. To preserve debt sustainability and anchor expectations, any fiscal relaxation should be based on a credible plan to return fiscal policy settings back toward targets over the medium term. Where fiscal space is limited, the emphasis should be placed on a more growth-friendly composition of the budget.

While recognizing the diverse challenges facing policymakers in emerging market and developing economies, Directors agreed that common policy priorities center on reducing macroeconomic and financial vulnerabilities and rebuilding resilience. They stressed that, in many countries, better fiscal and debt management frameworks that anchor longer-term plans will help mitigate procyclical policy and build resilience, while structural reforms are urgently needed to raise productivity and remove bottlenecks to production. Exchange rate flexibility, where feasible, can help cushion external shocks, although its effects on inflation and the balance sheets of the private and public sectors would need to be monitored closely.

Directors noted that the positive growth effects of the decline in commodity prices in commodity-importing economies have been less pronounced than expected. Commodity-exporting countries, on the other hand, have been hit hard and many have run down their policy buffers. Some of these countries need to adjust public spending to lower fiscal revenues. This adjustment should be complemented by further efforts to improve revenue diversification and phase out poorly targeted and wasteful spending, including fuel subsidies. For commodity importers, depending on their needs, part of the windfall gains from lower oil prices could be used to finance critical structural reforms or growth-enhancing spending.

Directors concurred that, in low-income countries, policies must respond to the heightened challenges and vulnerabilities stemming from the difficult external environment, taking account of domestic circumstances. For many commodity exporters whose fiscal and external balances are deteriorating, a tight macroeconomic policy stance is required to preserve hard-won macroeconomic stability. Directors also stressed the need to make further progress toward the Sustainable Development Goals, particularly through economic diversification, domestic revenue mobilization, and financial deepening. Appropriate policy advice and adequate financial assistance from the IMF and development partners remain important in that regard.